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Memorandum

TO: BATA Oversight Committee DATE: April 7, 2010

FR: Executive Director

RE: Approval of Resolultion No. 93 – Funding Agreement for Payment of MTC Transfers

Staff recommends approval of Resolution No. 93 approving a funding agreement between MTC and BATA that will authorize payment from BATA of approximately $505 million as full payment for all MTC transit capital transfers for the next 50 years.

MTC Transfers
State law requires BATA to transfer funds to MTC for various transit capital purposes. Those purposes include:

AB 664 (S&H Code§30884)	16% of base toll revenue on the San Francisco-Oakland Bay Bridge (SFOBB), San Mateo, and Dumbarton Bridges to be used for transit capital purposes.
RM 1 90% Rail (S&H Code §30914a(4))	21% of "Base Toll" revenue collected on SFOBB to be used 70% East / 30% West Bay rail projects.
2% Toll Revenues (S&H Code §30913(b))	Up to 2% of revenue generated from base toll collection for ferry capital project and other capital projects for bridge improvements.

The transfers are calculated each year by BATA and transferred annually to MTC. Guided by the policy resolutions noted below, the transferred funds are used for the following purposes:

- AB664: AB664 funds have generally been used as local match for Federal Transit Administration formula funds, as guided by the Transit Capital Priorities process and MTC Resolution No. 2004. With the proposed transfer, staff would continue to use the funds for this purpose; however, the time period and annual amount would be subject to additional discussion with the transit operators.

- RM1 90% Rail Reserves: MTC Resolution No. 3434 identifies $265 million in project priorities for future Regional Measure 1 (RM1) rail funds. The table on the following page summarizes the approved funding commitments, including allocations. At the time of adoption of Resolution 3434 in 2001, it was clear that the cash flow needs of the project sponsors could not be met through annual transfers and, as such, it was assumed that these commitments would be met through a BATA debt issuance secured by the roughly $10 million in expected future annual revenues.

Table 1. Summary of RM1 90% Rail Reserve Commitments

Projects	Resolution 3434 Commitments (millions)	Allocations To-Date (millions)	Expected Year of Funding Need
Transbay Transit Center	$ 53	$ 5	2013 - 2014
BART/Oakland Airport Connector	31	$ 31	2011 - 2014
Tri-Valley Access Improvements to/from BART	16		2013
East Contra Costa BART Extension (e-BART)	52		2011 - 2014
BART to Warm Springs	113		2012 - 2014
Total RM 1 Funding Commitments	**$ 265**	**$ 36**	

- 2% Toll Revenues: One-third of the 2% Toll revenues are dedicated to ferry capital projects and two-thirds of the revenue was previously directed to BATA capital projects for bridge improvements. MTC Resolution No.3288 provides the policy guidance for these funds. There is no policy governing the future distribution of the non-ferry capital 2% Toll Revenue funds. Similar to the AB664 funds, there will need to be additional discussion on the time period and annual funding amounts for the 2% Toll Revenues.

There have been funding concerns with the existing annual transfer process from both BATA and MTC perspectives. BATA is required to "subordinate" these transfers to all bondholder obligations which, theoretically, will intercept these funds if they are ever needed to meet bondholder obligations. This places somewhat of a cloud on MTC's ability both to plan and program the use of these funds. Further, the annual cap on the transfers makes it difficult for MTC to plan and execute support for large capital projects.

Fortunately, MTC and BATA have had some relevant experience overcoming funding hurdles to meet project purposes. MTC used a combination of resources including a pledge of 90% Rail Reserve funds to secure a financing issued by a Joint Powers Authority of MTC and BART to help complete the BART/SFO extension. In addition, BATA advanced $60 million to MTC and assumed the loan of 90% rail funds due from BART for the SFO project. The bonds issued for the BART/SFO extension have been repaid and BART has $37 million remaining to be paid of the $60 million advance.

MTC Transfer Value

The value of the transfers has been established utilizing the existing financing model that was developed to manage the toll bridge financing program. The basis for using the existing model to determine the value transfer is as follows:

- The BATA financial model that has been evaluated and rated by three credit rating agencies for 10 years.

- Traffic growth projections are based on rated modeling assumptions.
  - No growth through 2011
  - Average of .33% annual growth following 2011

- No change in calculating transfer amounts.

- Independent verification of model results, values and discounted values by Public Financial Management (PFM), BATA's financial advisor.

- 50 year length of transfer prepayment consistent with BATA debt portfolio.

- The proposed discount factor will be equivalent to the net rate on the next BATA taxable transaction and will also be consistent with the market spread of similar highly rated, subordinate financings.

The most recent BATA senior lien taxable bond issue traded at 2.0% over 30 year U.S. Treasury bonds. The next BATA issuance is expected to be subordinate lien taxable bonds, therefore, we expect the spread over treasuries to increase slightly. In the current market the recommended level would produce a discount rate of 4.38%. If MTC agrees to the discount methodology, staff recommends that BATA agree to transfer such amounts with a minimum transfer guarantee of $505 million. The overall value is consistent with other components of the BATA financing model and should represent a reasonable valuation of the proposed funding program.

Risks / Advantages
While the value of the transfers is fairly easy to calculate, there are benefits and risks for both BATA and MTC in this transaction.

	Benefits	**Risks**
BATA	▪ Completes fund transfers ▪ More bondholder cashflow protection	▪ Traffic may decrease ▪ Setting of appropriate discount rate ▪ Lowers immediate project funds ▪ Risk of future market access
MTC	▪ Maintains Resolution No. 3434 commitment ▪ Potential to leverage and earn interest on funds ▪ Allows "trust" structure for project funding ▪ Allows MTC full control of project funding and schedule	▪ Traffic growth limited to current proforma ▪ Setting of appropriate discount rate ▪ No future BATA funding under current toll structure

An independent risk to this transaction is the introduction of SB 1245 (Simition) which, among other impacts, would invalidate the $2.50 toll for carpools on the State-owned bridges that is due to take effect on July 1, 2010. We are working with the author's office on amendments to the bill. In the meantime, BATA will escrow the funds potentially affected by SB 1245 until the issue is resolved.

Funding Agreement
Based on proforma models and the recommended discount, the current estimated value of the total transfer is $505 million. The annual Regional Measure 2 transit operating transfers would be unaffected by this transaction. In addition, the AB 1171 commitments to hightway and transit capital projects will continue to be funded directly by BATA, up to a total amount of $570 million. The breakdown of the lump sum transfer is as follows:

Source	**Annual (2011) (millions)**	**50 Years Nominal (millions)**	**Present Value* (millions)**
AB664	$ 12	$ 632	$ 247
RM 1 90% Rail	10	504	199
2% Transfer	3	154	59
Total	$ 25	$ 1,290	$ 505
Net of Carpool Revenue	$ 22	$ 1,150	$ 450

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* Preliminary – subject to change

Subject to Board approval and completion of the agreement, the final calculation of the transfer amount will be made after the close of the 2010 fiscal year. Once final traffic counts and associated calculations are completed, funds will be transferred over to MTC. The discount factor utilized in the calculations will be based on the pricing of the initial 2010 BATA taxable subordinate lien financing. The transfers will be broken into two installments with an initial installment of $450 million. The second installment of approximately $55 million, adjusted for any increase resulting from the BATA financing results, will be made after issues related to SB 1245 are resolved. Once the funds are transferred to MTC and recorded in the individual special revenue accounts they will be available for any authorized or committed purpose, and MTC waives any future claim on transit capital transfers from BATA through 2060.

Staff recommends approval of Resolution No. 93 and requests the resolution be forwarded to the Authority for approval.

Steve Heminger

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